



Centralized Payroll Employee Costs (State Employee Salaries and Benefits)

ISSUE

This *Issue Review* is intended to be an initial report of the various components that make up State employee salaries and benefits and includes an overall analysis of State Centralized Payroll costs over time. Additional *Issue Reviews* will examine the overall and individual components.

BACKGROUND

The Department of Administrative Services (DAS) is the agency that administers the Centralized Payroll System. Information from the Board of Regents, Community-Based Corrections (CBCs), the State Fair Authority, and the Department of Transportation (DOT), is either not available or incomplete and these agencies have been excluded from the analysis of the individual components of personal services in this *Issue Review*.¹ The data does include the remaining Executive, Judicial, and Legislative Branch agencies. While all State entities provide employer-sponsored benefits, the Centralized Payroll System the DOT, the eight CBCs, the State Fair Authority, the Iowa School for the Deaf, and Iowa Braille and Sight Saving School use different software packages for the processing of payroll. There is not a common system or software used by the entities. Within one entity, there may be different software or systems used for different functions such as benefit enrollment, flexible spending, timekeeping, or payroll processing.

See **Attachment A** for definitions and explanations of payroll terms.

HISTORICAL SALARY TRENDS

Staffing has decreased from 19,432.1 full-time equivalent² (FTE) positions in FY 2005 to 17,752.2 FTE positions in FY 2015. This is a decrease of 1,679.9 (-8.6%) FTE positions. (See **Chart 1** on the following page.)

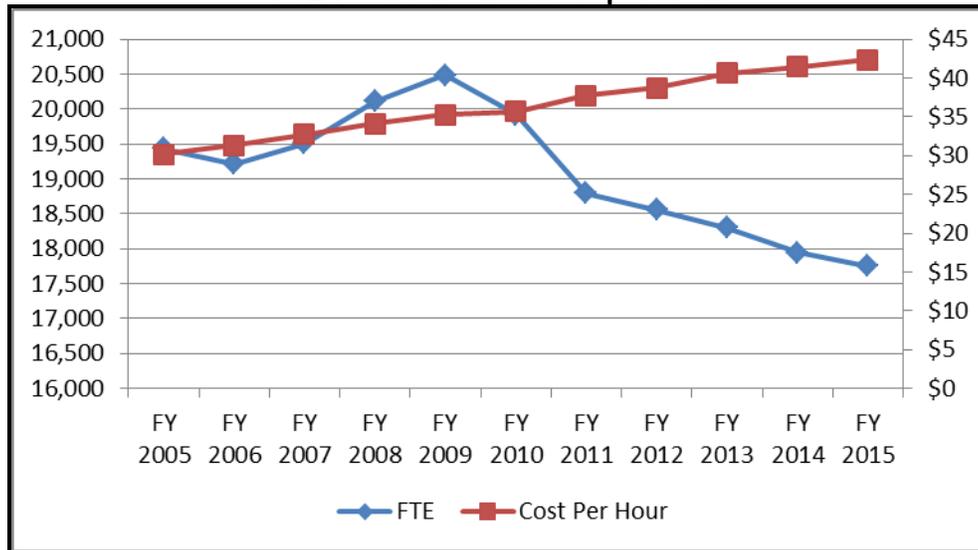
State employees were paid for a total of 40.4 million hours at an average cost (wages and benefits) of \$30.19 per hour in FY 2005. In FY 2015, State employees were paid for a total of 36.9 million hours at an average cost of \$42.38 per hour. This is an increase of \$12.19 (40.4%) per hour compared to FY 2005. Data from the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor shows that for all state and local government workers in the United States, the average cost of wages and benefits increased from \$35.50 per hour to \$44.22 during this same time. This is an increase of \$8.72 per hour (24.6%).

Additional information about FTE positions can be found in the *Issue Review*: [State of Iowa FY 2014 FTE Positions and Personnel Costs](#).

¹ Also not included is funding provided by the State for teachers' salaries since they are not paid through the Central Payroll System.

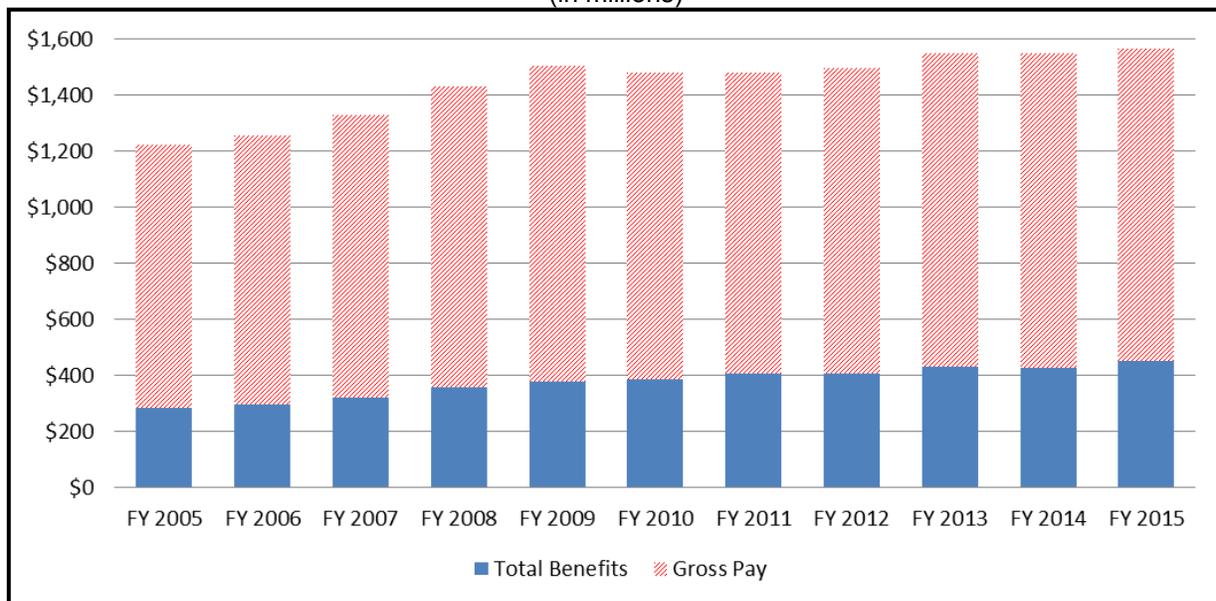
² The FTE positions are calculated based on one FTE position being equal to 2,080 hours of work.

**Chart 1 – Staffing
FTE Positions and Cost per Hour**



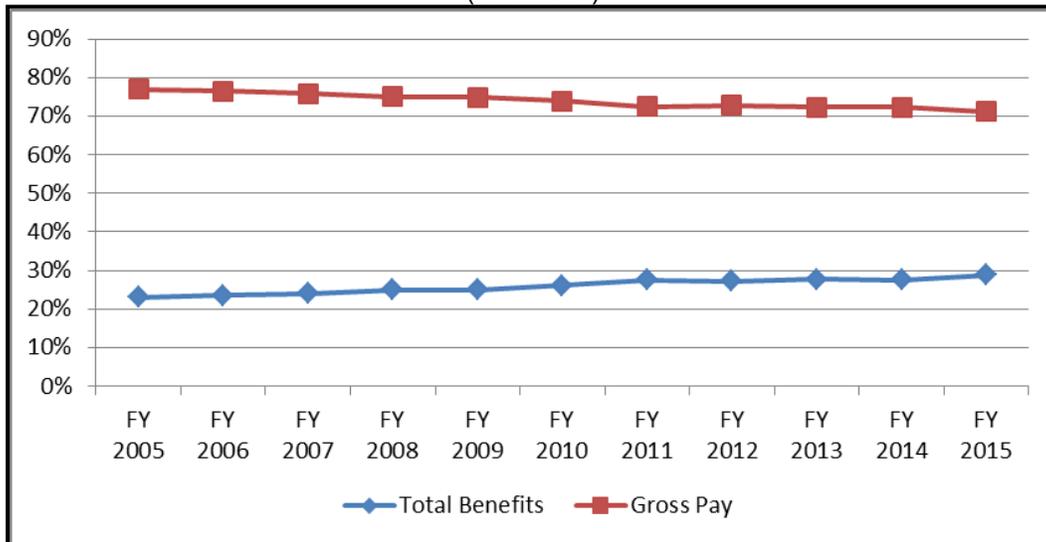
Total Personal Services (salary and benefits paid from all funding sources) cost has increased from \$1.2 billion in FY 2005 to \$1.6 billion in FY 2015. This is an increase of \$344.3 million (33.6%).

**Chart 2 – Gross Pay and Benefits – All Funding Sources
(in millions)**



Total Cost of Benefits has increased at a faster pace than Gross Pay. The Total Cost of Benefits has increased from 23.0% of Total Costs in FY 2005 to 28.8% of Total Costs in FY 2015. Total Gross Pay decreased from 77.0% of Total Costs in FY 2005 to 71.2% of Total Costs in FY 2015.

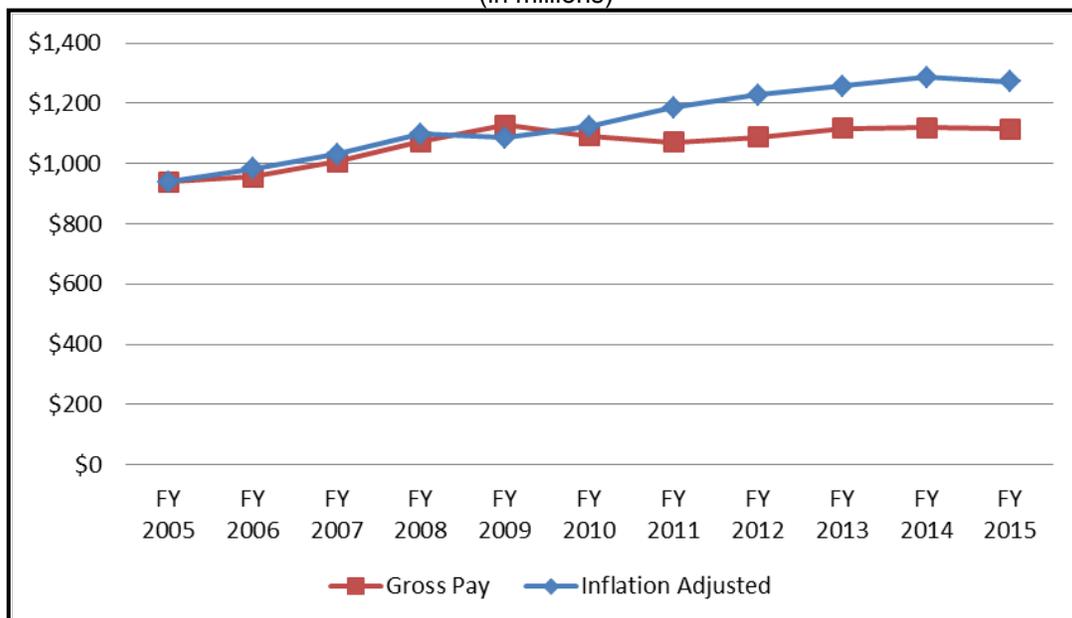
Chart 3
Gross Pay and Benefits as a Percentage of Total Personal Services
 (in millions)



GROSS PAY – CENTRALIZED PAYROLL SYSTEM

Total Gross Pay (detailed in **Attachment A**) from all funding sources has increased from \$939.2 million (77.0% of Total Costs) in FY 2005 to \$1.1 billion (71.2% of Total Costs) in FY 2015. This is an increase of \$174.9 million (18.6%). If the Gross Pay had increased at the same rate as the Consumer Price Index (CPI) for all Midwest Urban Consumers as published by the U.S. BLS for each year after FY 2005, Gross Pay would have increased to \$1.3 billion for FY 2015. This would be an increase of \$153.8 million (13.8%) compared to actual FY 2015 Gross Pay.

Chart 4 – Gross Pay
 (in millions)



While the number of FTE positions has decreased, employee pay has increased due to across-the-board adjustments and merit steps as shown in **Chart 5** below.

Chart 5

SALARY INCREASES OF STATE EMPLOYEES IN IOWA					
Fiscal Year	Merit Steps	Contractual (AFSCME)		Noncontract	
		Across the Board	Steps	Across the Board	Merit Steps
2005	Min/Max	2.0% (a)	+ 4.5%	2.0% (a)	+ Merit
2006	Min/Max (b)	0.0%	+ 4.5%	0.0% (c)	+ Merit +4.0%
2007	Min/Max	2.0%	+4.5%	2.0%	+ Merit
2008	Min/Max	3.0%	+4.5%	3.0%	+ Merit
2009	Min/Max	3.0%	+4.5%	3.0%	+ Merit
2010	Min/Max	0.0%	+4.5%	0.0%	+ Merit
2011	Min/Max	3.0% (d)	+4.5%	0.0%	None
2012	Min/Max	3.0% (e)	+4.5%	3.0% (e)	+ Merit
2013	Min/Max	3.0% (f)	+4.5%	3.0% (f)	+ Merit
2014	Min/Max	0.0%	+4.5%	0.0% (g)	+ Merit
2015	Min/Max	0.0%	+4.5%	0.0% (g)	+ Merit
2016	Min/Max	2.5%	+4.5%	2.5%	+ Merit
2017	Min/Max	3.5%	+4.5%	3.5% (h)	+ Merit

(a) The FY 2005 increase was effective December 31, 2004.
 (b) The FY 2006 increase to the pay range maximum of 2.5% was effective April 1, 2006.
 (c) The FY 2006 merit plus 4.0% rate increase was set by the Governor for Executive Branch and noncontract employees.
 (d) Increase of 2.0% effective June 25, 2010, and 1.0% effective December 24, 2010.
 (e) Increase of 2.0% effective July 1, 2011, and 1.0% effective January 1, 2012.
 (f) Increase of 2.0% effective July 1, 2012, and 1.0% effective January 1, 2013.
 (g) Provides nonrecurring additional payments each pay period equal to 1.0% of the employees beginning fiscal year biweekly base pay, starting with the pay periods that include July 1, and 2.0% starting with the pay periods that include January 1, for both FY 2014 and FY 2015.
 (h) Increase of 2.5% effective July 1, 2016, and 1.25% effective January 1, 2017.

Source: Department of Administrative Services

BENEFITS – CENTRALIZED PAYROLL SYSTEM

Total Benefits (detailed in **Attachment A**) have increased from \$281.1 million (23.0% of Total Costs) in FY 2005 to \$450.5 million (28.8% of Total Costs) in FY 2015. This is an increase of \$169.4 million (60.3%).

The U.S. BLS data shows that for all state and local workers in the United States, comparable benefits contributed 21.8% to the Total Costs in FY 2005 and that increased to 26.9% in FY 2015. Nationally, state and local employers contribute a greater percentage of total compensation for retirement and not as much for health insurance compared to the state. (See **Charts 6, 7, and 8.**)

Chart 6 – Benefits
(in millions)

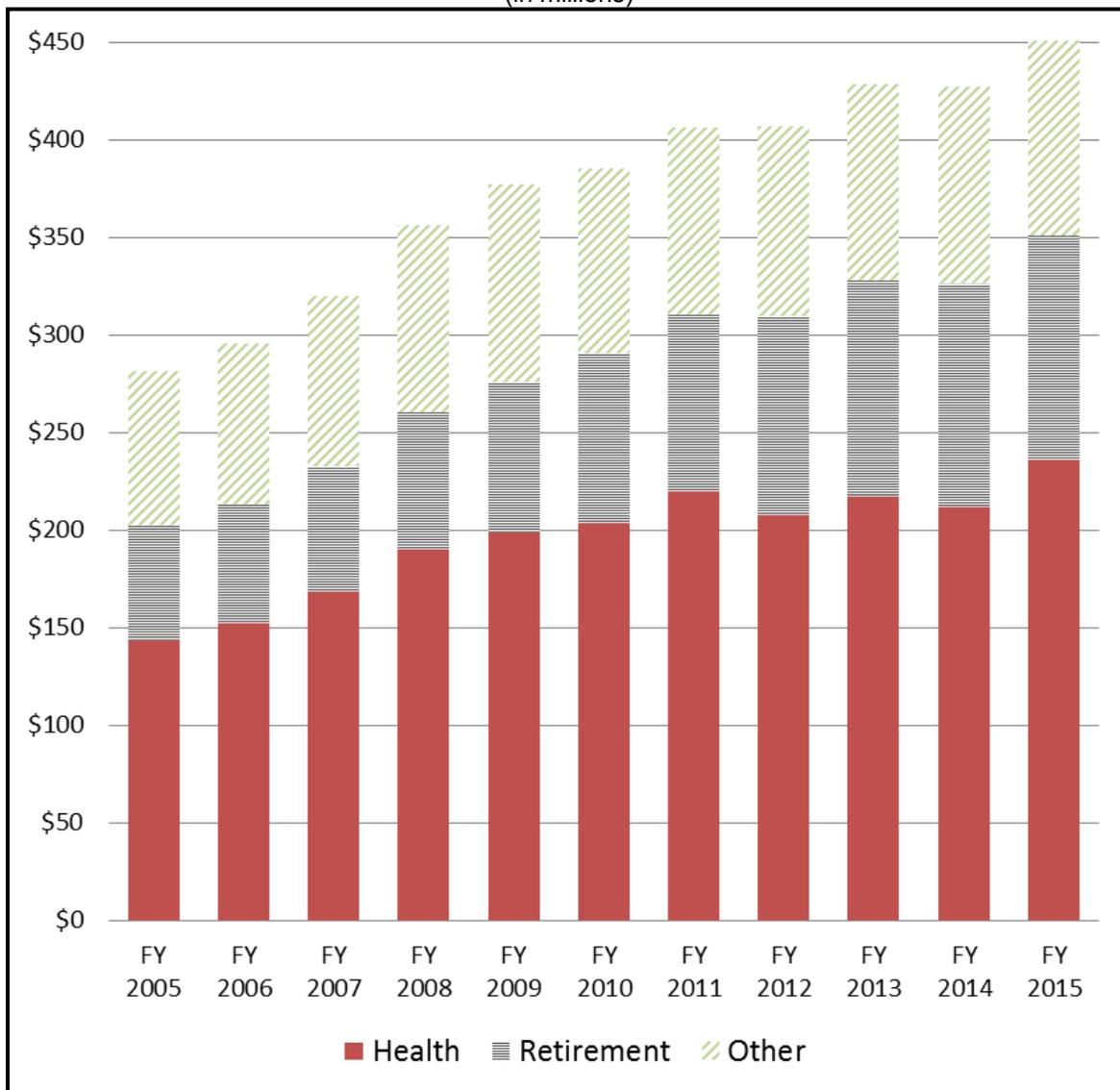


Chart 7

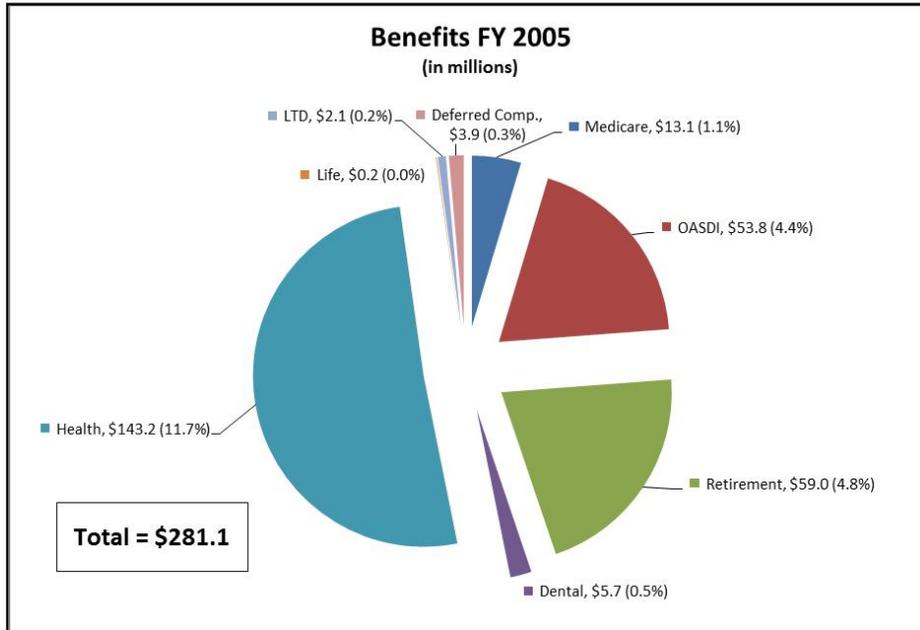
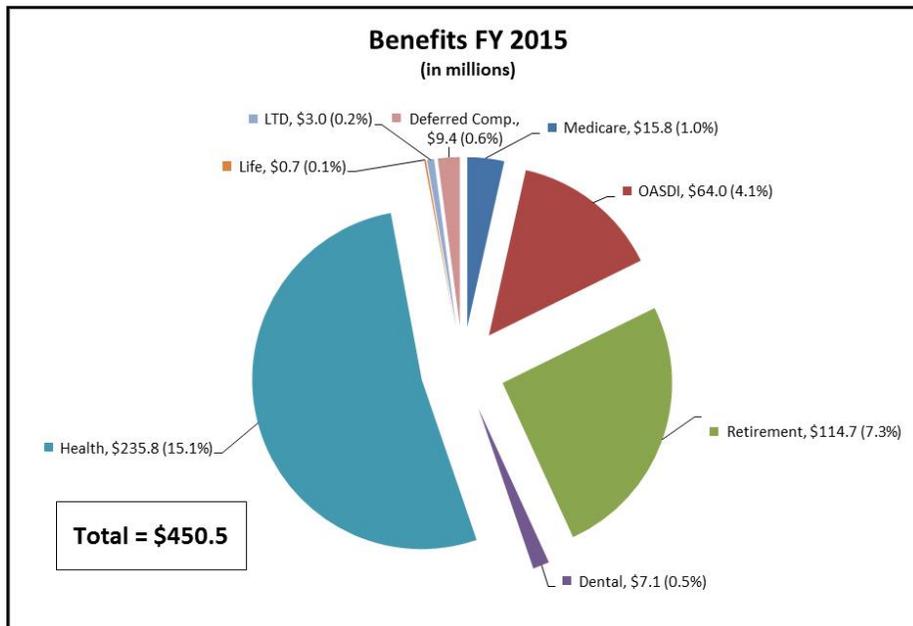
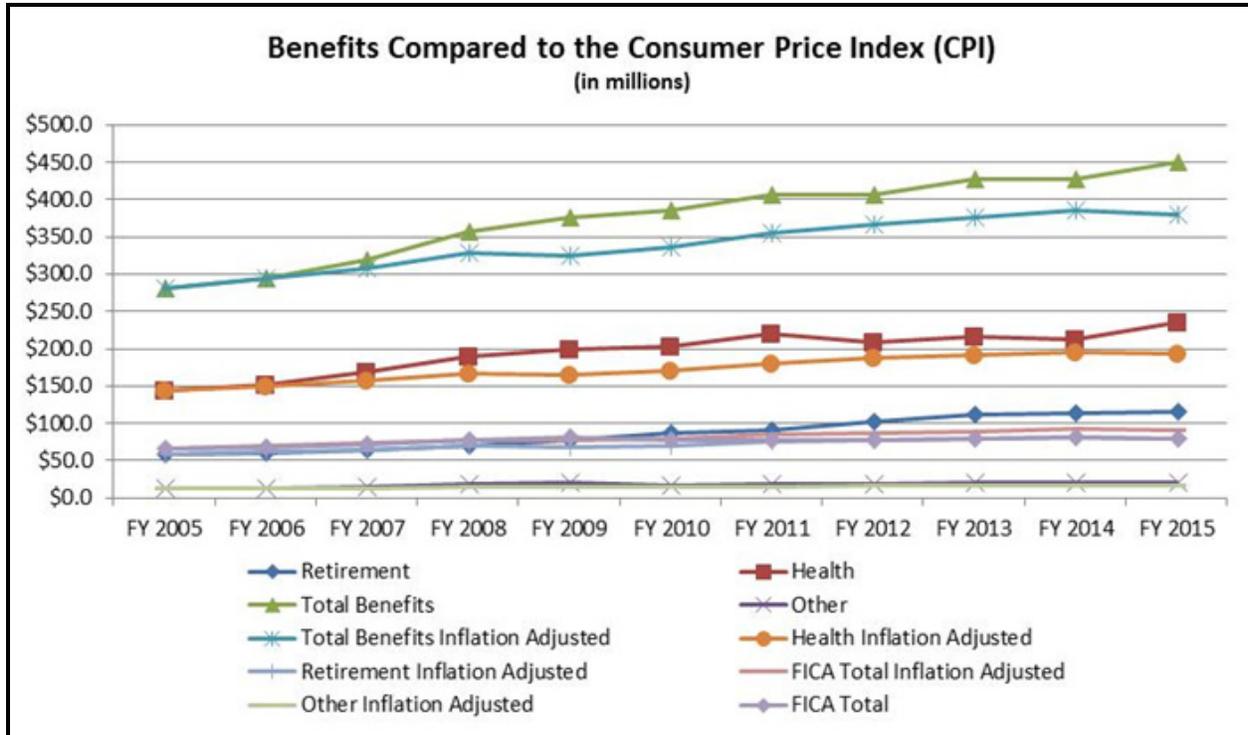


Chart 8



Total benefits have outpaced the CPI. If total benefits had matched the pace of the CPI, total benefits would have been \$69.9 million (15.5%) lower annually. (See **Chart 9**)

Chart 9



The total benefits per hour have outpaced the CPI by 22.8% from FY 2005 through FY 2015, pushing the contribution per hour up by an additional \$2.78. (See **Chart 10**)

Chart 10

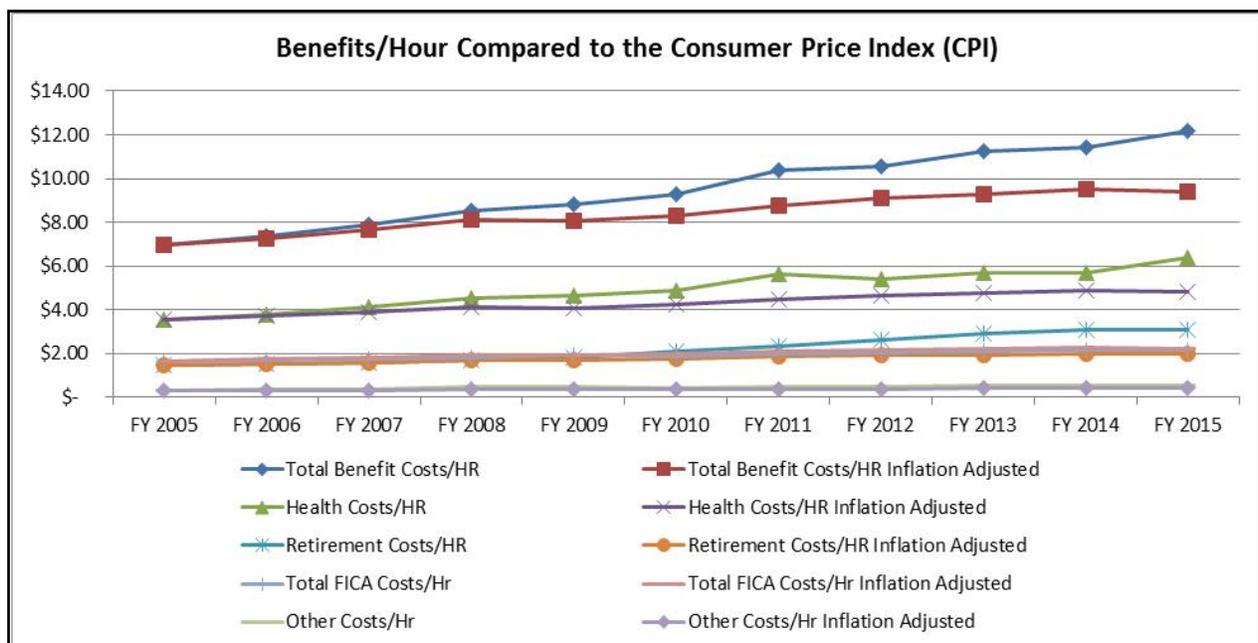


Chart 11

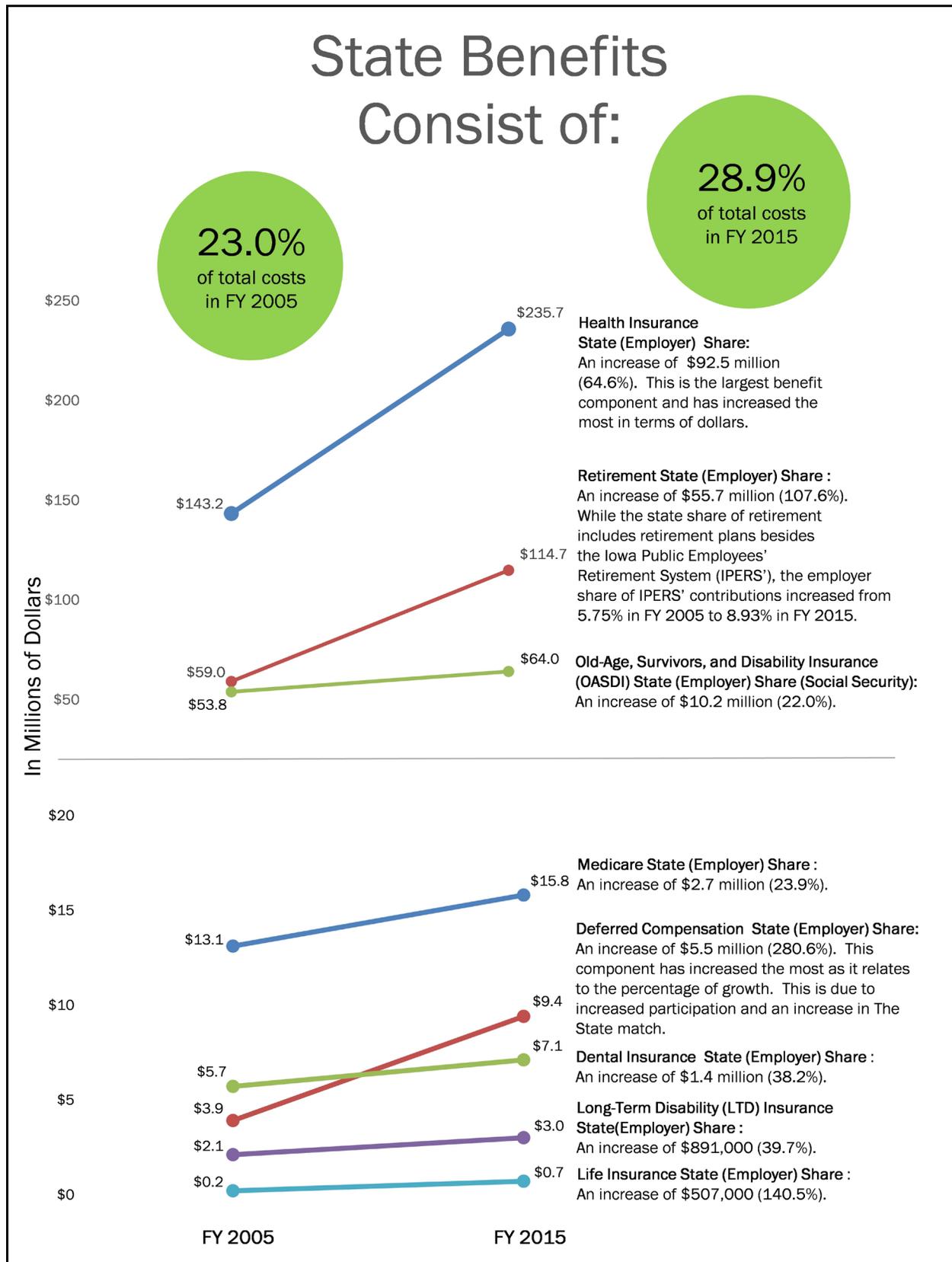


Chart 12

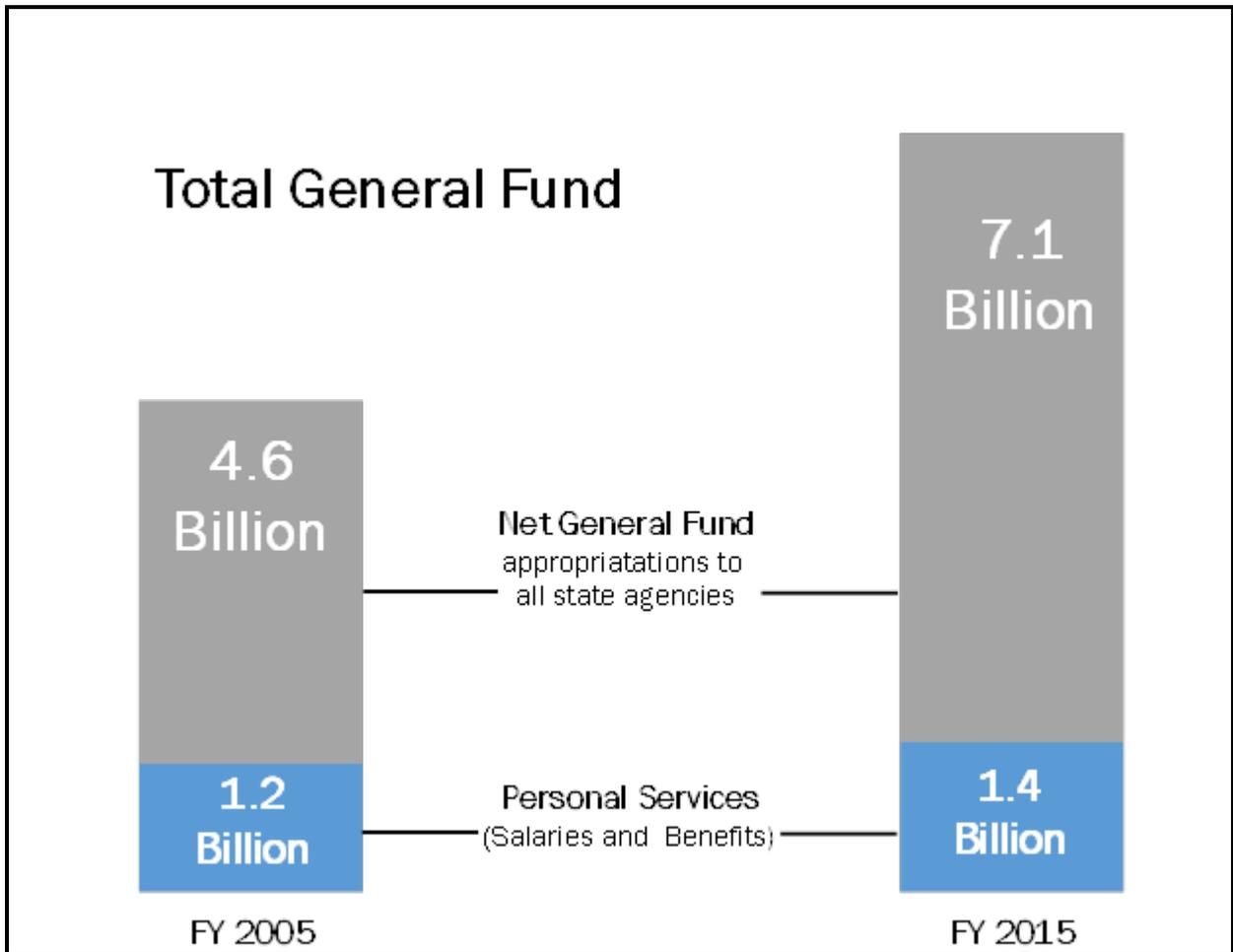
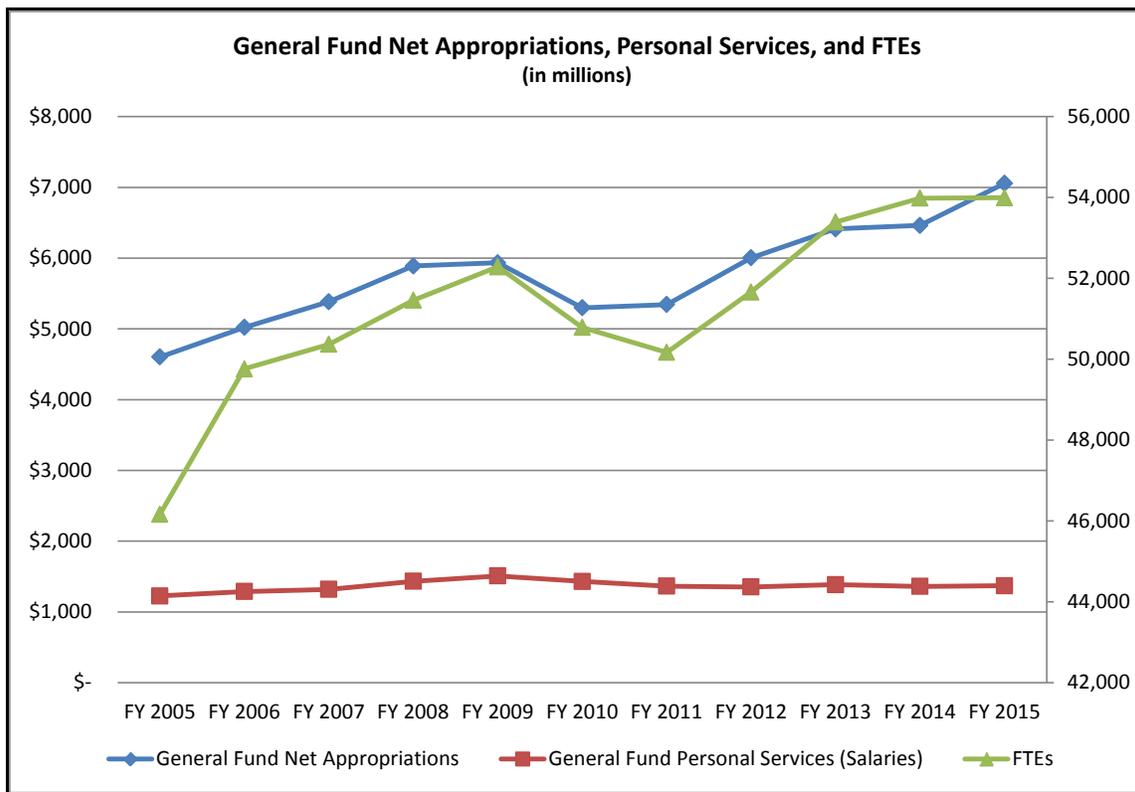
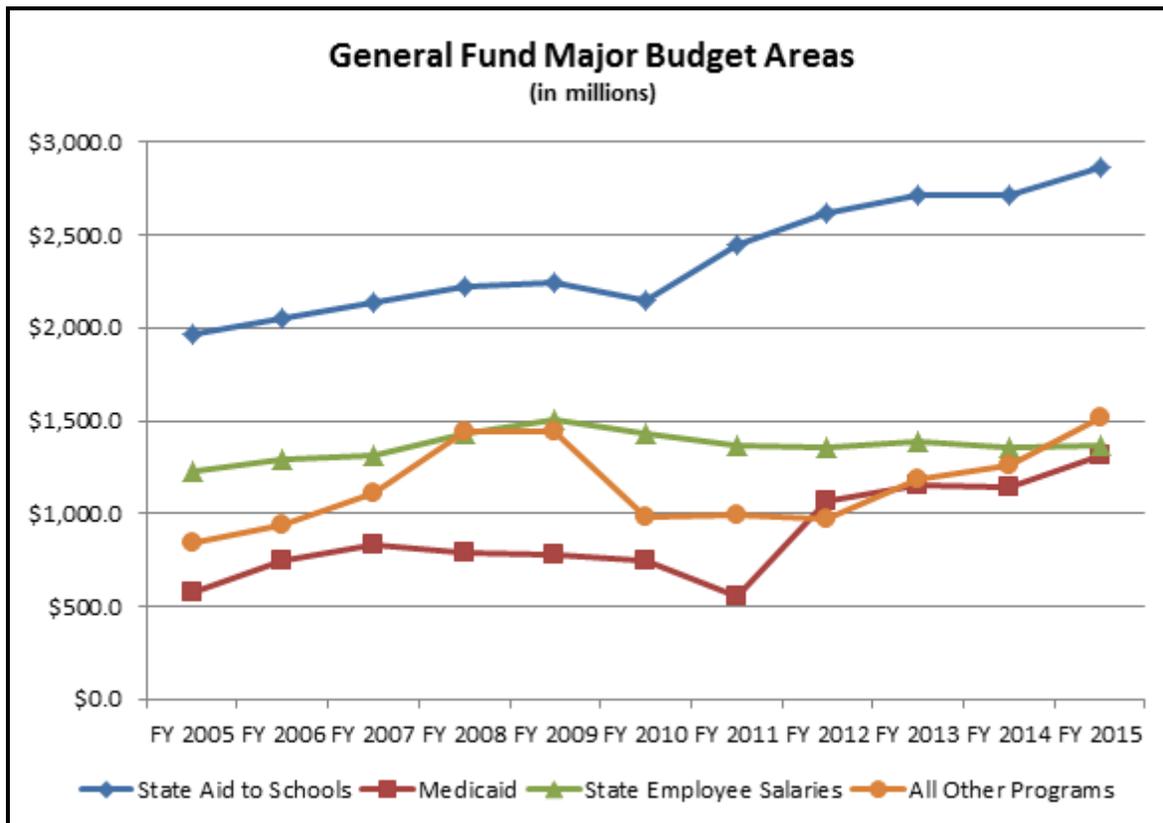


Chart 13



The gap between Net General Fund Appropriations and Personal Services has increased as expenditures for nonsalary-related costs have increased. During a portion of this time some of the overall State funding was shifted to non-General Fund revenues. The area of the General Fund budget that is experiencing the fastest rate of growth is Medicaid. Medicaid comprised approximately 18.5% of the total Net General Fund budget during FY 2015. From FY 2005 to FY 2015, the General Fund Medicaid appropriation increased \$738.9 million (129.5%). State School Aid comprises the largest portion of the General Fund budget at approximately 40.6%, and, therefore, has accounted for the largest dollar increase over the last 10 years (\$899.0 million). Three other areas that comprise a substantial part of the General Fund budget include Higher Education (Regents and Community Colleges), the Department of Corrections, and Property Tax Replacement appropriations. (See **Chart 14**)

Chart 14



SUMMARY

In summary, for the agencies included in this analysis:

- Staffing (number of full-time employees) has decreased.
- While lagging behind the overall national average cost per hour, the average cost per hour paid to State of Iowa employees has increased at a higher rate compared to the national average.
- Gross pay has not kept pace with the CPI.
- Benefits costs in FY 2015 account for a greater share of the total cost compared to FY 2005.
- Health insurance is the largest benefit component and has increased the most in terms of dollars.

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State Payroll Terms

BACKGROUND

Payroll costs include salary and benefits.

Salary costs (Gross Pay) include:

- Back Pay Subject to Peace Officer Retirement
- Base Pay
- Earned Income Credit (EIC) Pay
- Longevity Pay
- Maintenance Pay Total
- Other Pay Adjustments
- Other Pay Total
- Overtime Pay
- Terminal Leave Pay

Benefits costs include:

- Health Insurance State Share
- Retirement State Share
- Federal Insurance Contribution Act State Share (FICA)
- Deferred Compensation State Share
- Dental Insurance State Share
- Long-Term Disability (LTD) State Share
- Life State Share

State employee salaries and benefits are governed by the Iowa Code, [collective bargaining agreements](#), and administrative rules. The scope of what is to be negotiated is established in [Iowa Code section 20.9](#). The section provides, in part, as follows:

The parties must negotiate in good faith with respect to wages, hours, vacations, insurance, holidays, leaves of absence, shift differentials, overtime compensation, supplemental pay, seniority, transfer procedures, job classifications, health and safety matters, evaluation procedures, procedures for staff reduction, in-service training, and other matters mutually agreed upon. The obligation to negotiate in good faith does not compel either party to agree to a proposal or make a concession.

DEFINITIONS

Gross Pay includes:

- **Back Pay Subject to Peace Office Retirement** – pay adjustment for employees eligible for the Peace Office Retirement System (PORS).
- **Base Pay** – a fixed rate of pay for an employee that is exclusive of shift or educational differential, special or extraordinary duty pay, lead worker pay, or any other additional special pay. The hourly rate of pay times the regular hours worked.
- **Earned Income Credit (EIC) Pay** – the advance payment of the tax credit the employee will be able to claim on their tax return. This is no longer being done.
- **Longevity Pay** – the amount of added pay based on the years of service the employee has provided. This is only available to eligible peace officers of the Departments of Public Safety, Natural Resources, and Transportation.
- **Maintenance Pay Total** includes:
 - **Meals Pay**
 - **Cleaning Pay**
 - **Commute Miles Pay**
 - **Regular Maintenance Pay** – other payments not specified above for items such as required clothing.

- **Other Pay Adjustments** includes:
 - **Regular Other Pay** – payments that have not been coded as another type of payment. Past payments have included:
 - Added Duties
 - Appeal Board Claims
 - Banked Payout
 - Bonus
 - Catastrophic Leave
 - Grievance
 - Legislative Salary
 - Military Pay
 - Pay Adjustment
 - Per Diem
 - Retroactive Pay Increase
 - Settlement Payments
 - **Workers Compensation Pay** – payment or reimbursement resulting from the injury of the employee while in the course and scope of their employment.
- **Other Pay Total** includes:
 - **Bonus Pay** – payment for extraordinary work performance.
 - **Call Back** – extra pay for eligible employees directed by the appointing authority to report back to work outside of their regular scheduled work hours that are not contiguous to the beginning or the end of their scheduled work hours.
 - **Catastrophic Pay** – employees received and utilized donated leave hours for catastrophic illnesses of the employee or an immediate family member.
 - **Compensatory Time Pay** – payment for leave accrued as a result of overtime, call back, holidays, or holiday work. The employee receives paid time off instead of paid overtime. However, the agency may allow the employee to elect cash instead of time off without pay.
 - **Department of Natural Resources (DNR) Premium Pay** – additional pay (4.0%) in lieu of shift differential as compensation for weekends worked.
 - **Education Difference Pay** – additional payments for having an advanced degree.
 - **Extraordinary Pay** – payment for special work performance.
 - **Fire Fighter Pay** – payment for providing fire fighter skills.
 - **Holiday Pay** – payment for work on a holiday.
 - **Imputed Income** – represents the cost of a benefit, such as life insurance, that exceeds the specified amount allowed under the Internal Revenue Code. The employee receives a taxable benefit without receiving a payment.
 - **Incentive Pay** – payment for reaching specified goals.
 - **Income Not Subject to Retirement** – payments not specifically included when determining retirement contributions and benefits.
 - **Judicial Weekend Pay** – payment for work performed by Judicial employees on weekends.
 - **Lead Worker Pay** – payment for responsibility assigned to an employee by management to direct (instruct; answer questions; distribute and balance work load; accept, modify or reject completed work; maintain attendance records; report infractions; and provide input on staffing decisions) the work of two or more employees (federal, state, county, municipal and private employment organization, volunteers, inmates or residents).
 - **Medicine Passer Pay** – payment for performing the task of distributing medicine.
 - **Phased Retirement Pay** – payment for participation in the Phased Retirement Program that provides 10.0% of the employee's regular biweekly pay in addition to being paid for the number of hours the employee works or is in pay status during the pay period. The Program is authorized by Iowa Code section [70A.30](#).

- **Reassignment Pay** – payment for movement of an employee within the same organizational unit or to another organizational unit at the discretion of the appointing authority. A reassignment may include a change in duties, work location, days of work, or hours of work and may be temporary or permanent. A reassignment may result in a change from the employee’s previous job classification.
- **Retirement Bonus Pay** – reimbursement for moving expenses required by the Internal Revenue Code to be paid through payroll. These payments are now part of the Other Pay Total.
- **Second Language Pay** – payment for the ability to communicate in another language.
- **Shift Differential 1 Pay** – 8 AM to 4:30 PM
- **Shift Differential 2 Pay** – 4 PM to Midnight
- **Shift Differential 3 Pay** – Midnight to 8 AM
- **Sick Payoff** – payment of the employee’s sick leave balance value, up to \$2,000, at the time an employee retires from State service.
- **Special Duty Pay** – payment for the temporary assignment of a permanent employee to a position in another class.
- **State Peace Officer Council (SPOC) Premium Pay** – payment for special work or hours. This was utilized to provide extra pay to State highway troopers having met the qualifications for the rank of Trooper 3 and is no longer used.
- **Standby Pay** – payment to eligible employees required by the appointing authority to restrict their activities during off-duty hours so as to be immediately available for duty.
- **Subsistence Pay** – payment to institutional superintendents at the Department of Corrections and the Department of Human Services institutions in lieu of physical housing.
- **Vacation Payout** – payment for participation in the vacation “Buy-Back” Program when the employee elects to “sell” up to 40 hours of vacation.
- **Overtime Pay** – payment for hours worked that exceed 40 hours in a workweek to an eligible employee that is entitled to be compensated unless otherwise specified in a collective bargaining agreement.
- **Terminal Leave Pay** – payment for a vacation balance at the time of separation from State service and the payment represents the value of the unused balance.

Benefits include the following:

- **Deferred Compensation State Share ([IAC 11-64.6](#) and [11-64.14](#))**
- **Life State Share ([IAC 11-64.3](#))**
- **Long-Term Disability (LTD) State Share ([IAC 11-64.4](#))**
- **Health Insurance State Share ([IAC 11-64.1](#))**
- **Dental Insurance State Share ([IAC 11-64.2](#))**
- **Retirement State Share (IAC chapter [495](#) (IPERS) and [661-402](#) (PORS))**
- **Federal Insurance Contributions Act (FICA) State Share Total (Social Security) includes:**
 - **[Old-Age, Survivors, and Disability Insurance \(OASDI\)](#) State Share**
 - **[Medicare](#) State Share**